

**HOUSING AUTHORITY OF ISLAND COUNTY**  
**Island County, Washington**  
**October 1, 1993 Through September 30, 1994**

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**Schedule Of Findings**

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1. Housing Authority Officials Should Limit Investments To Those Authorized By State Law

At September 30, 1994, Island County Housing Authority held \$ 23,007 of its investments in a mutual fund. The mutual fund invests primarily in direct obligations of the U.S. Treasury and in repurchase agreements relating to direct treasury obligations. We are of the opinion that such investments, when held in the form of mutual fund shares which are stock of a corporation, do not represent legal investments for a housing authority.

RCW 35.82.070 (6) authorizes a housing authority:

... to invest any funds held in reserves or sinking funds or any funds not required for immediate disbursement, in property or securities in which savings banks may legally invest funds subject to their control . . . .

However, Article 8, Section 7 of the Washington State Constitution prohibits a municipal corporation from becoming an owner of any stocks or bonds of any corporation. As a housing authority is a municipal corporation, RCW 35.82.070 (6) would appear to conflict with the constitutional provision. A statute is presumed constitutional, therefore, it can be implied that a housing authority legally may invest in any property or securities in which municipal savings may invest, subject to state constitutional restraints on municipal corporations.

Investment laws for municipalities are written to protect public funds from loss. Among these legal protections is the requirement that the municipality have direct ownership of legal investments. Without such direct ownership, the housing authority owns no underlying U.S. Treasury security in the event that it does not receive its principal from the brokers upon the sale of the housing authority's equity and undivided interest in the mutual fund.

We recommend that housing authority officials limit investments to those authorized under state law and take necessary steps when making investments to safeguard public funds.